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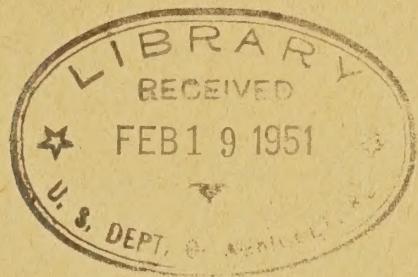
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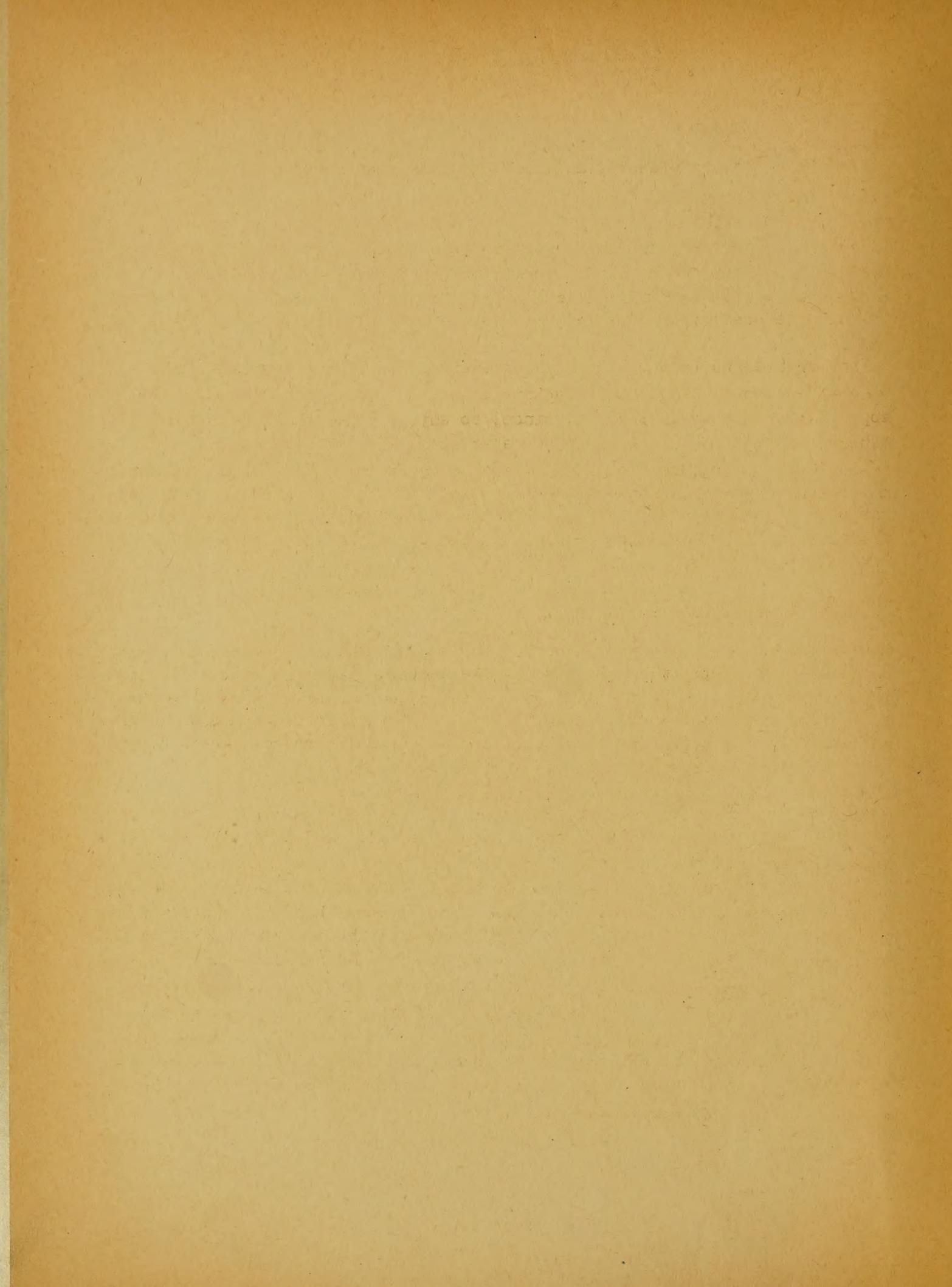
^{2a} MANAGEMENT DIVISION

^{✓3} SUGGESTED METHODS FOR ANNUAL OPERATIONS

BUDGETING

BY RURAL ELECTRIC DISTRIBUTION COOPERATIVES





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INTRODUCTION

PAST BUDGETING PRACTICES

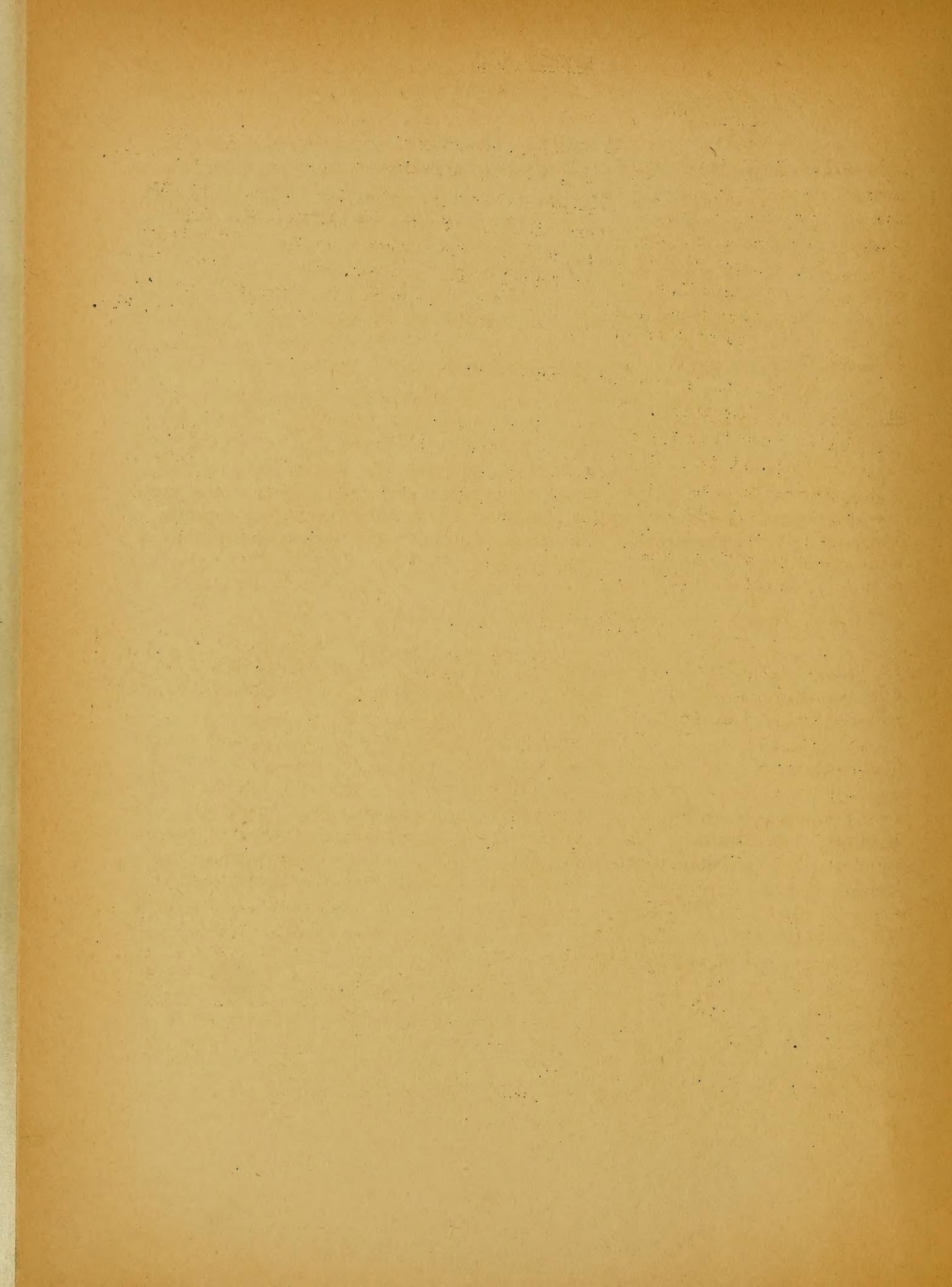
Experience indicates that, in general, borrowers' operating budgets have been rather loosely prepared and, in very many instances, have been, in fact, without foundation from the standpoint of basic planning, , recorded supporting data reflecting past experience, and other essentials to sound budgeting. In other instances, considerable thought has been given to the computation of the final budget form itself; however, even then, too often the managers have been unable to support their final budget recommendations through the presentation of recorded evidence of planning. calculations, etc.

Preparing budgets in the above manner entirely nullifies the value of the budget. For one thing, the directors cannot possibly know what they are approving when they approve it, since, to anyone other than the one who makes it up, it is just a sheet of paper with a lot of figures on it. Neither can the manager use this budget to chart the course of operations during the year since it would be impossible for him to remember just what has been included in the various figures. As a matter of fact, a budget prepared in a "hit-and-miss" fashion is valueless and the time spent on it, regardless of how little, is time lost.

ADVANTAGES OF EFFECTIVE BUDGETING

Realizing the above, we have prepared various sample work sheets, schedules and summaries which we consider to be the answer. There is no question but that the preparation of a budget in the suggested manner will require considerable time and thought. Nevertheless, only in this or a similar manner can an effective budget be compiled. And an operating budget, being a very essential tool of good management, must be prepared.

A well planned budget saves the directors and the co-op manager a great deal of time. For instance, once a board has approved a budget for the ensuing year, the manager then has a blueprint to guide him in executing the projects planned for the period. He is free to tackle them without having to continually bother the board with details. On the other hand, if the co-op has no budget or has a "hit-and-miss" type of budget, the manager must consult with the board before undertaking any task other than a routine one. Co-ops that are operated on the basis of well-planned budgets know where they are going. Once a board and its manager agree on a budget, there can be no doubt in the mind of either what needs to be done, what will be done, and approximately what it will cost. The board can function fully informed of just what to expect from the manager and what actions to take if and when a change in the program is necessary.



The preparation of the budget estimates should be through the joint efforts of all key personnel. In most well managed businesses, each department is responsible for making up its own estimates, and is then also responsible for adhering to the approved budget. By all means, superintendents, office managers, line foremen and bookkeepers, depending upon the organization arrangement, should not only sit in on the budget preparation, but should thoroughly understand their responsibility in carrying out the program. Subordinate personnel will appreciate being consulted about the plans, even though final decision will be made by the manager and the board, and everyone will therefore take more interest in carrying out the plans. Just the knowledge that the cooperative is operating on a planned rather than a "hit-and-miss" basis will cause subordinate employees to have more confidence in the cooperative management.

APPROACH TO BUDGETING

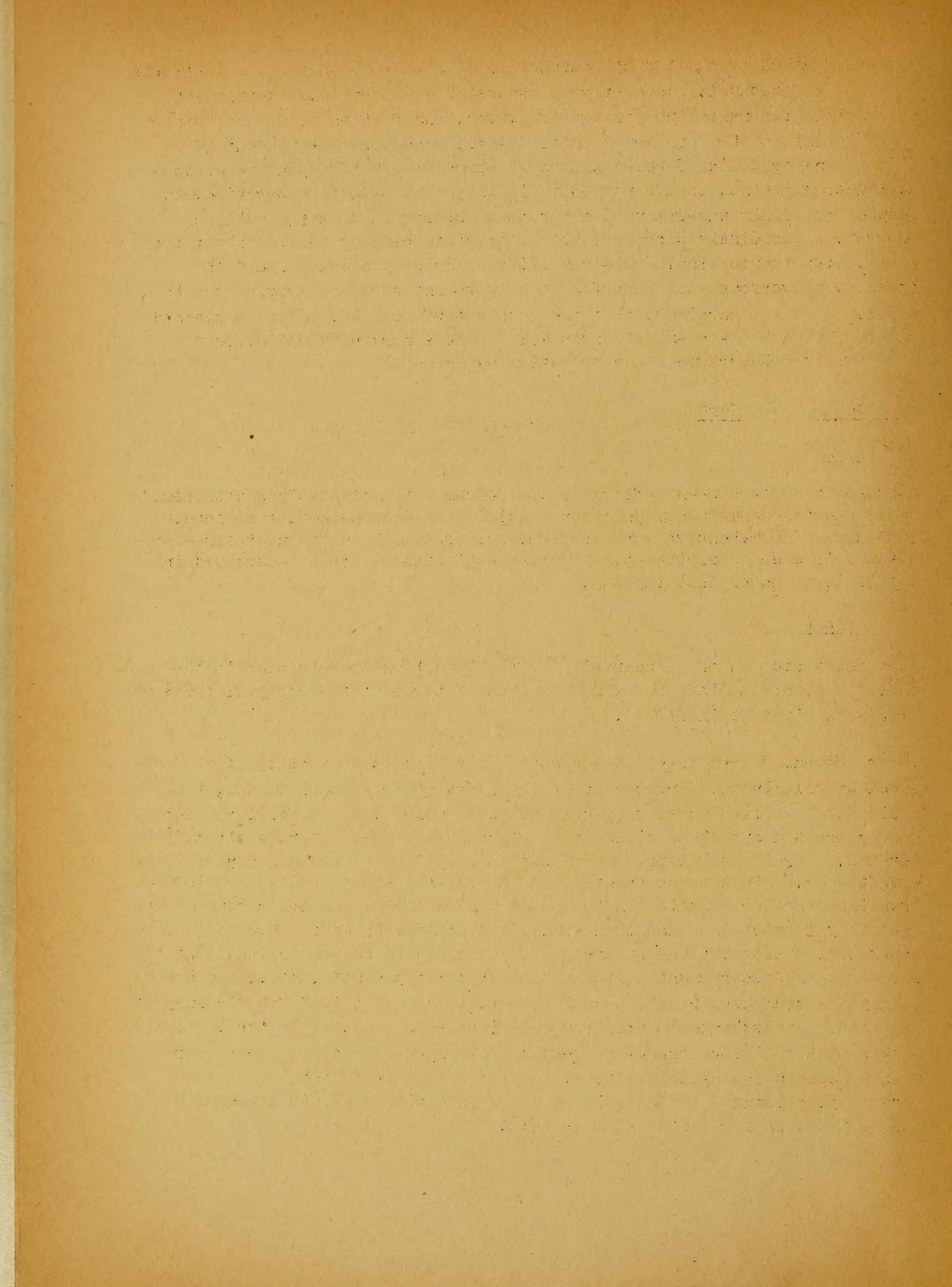
Step 1

A budget has often been defined as a "program with dollar signs attached." The suggested work sheets which are included in this packet, therefore, include a "Comprehensive Work Program." It should be drawn up before any attempt is made to arrive at any dollar estimates. This is discussed in detail later under that caption.

Step 2

The second step in the preparation of the budget under this plan is the development of the individual work sheets in terms of the contemplated work program arrived at in Step 1.

The recommended work sheets are comprehensive and, as a whole, appear somewhat voluminous. However, to fully serve the purpose intended, the basic data compiled must, of necessity, be complete. Therefore, the work sheets are and must be designed to reflect both past and future estimated revenue, as well as estimated expenses to be paid or accrued during the budget year. Since these sheets do not readily lend themselves to mimeographing or other practical method of reproduction, it is not recommended that they be used in connection with the presentation of the budget to the directors. Rather, these sheets are analogous to books of original entry, such as cash disbursement journals, cash receipt journals, etc., and are merely a medium used in the orderly compilation of detailed data in support of the "Schedules" and "Summaries" explained in Step 3. Therefore, these work sheets call for assembling revenue and expense data by type rather than by accounting classification. Each of the sheets contains, where necessary, columns for conversion to the accounting classifications called for by the master budget form (CO-47R1).



Step 3

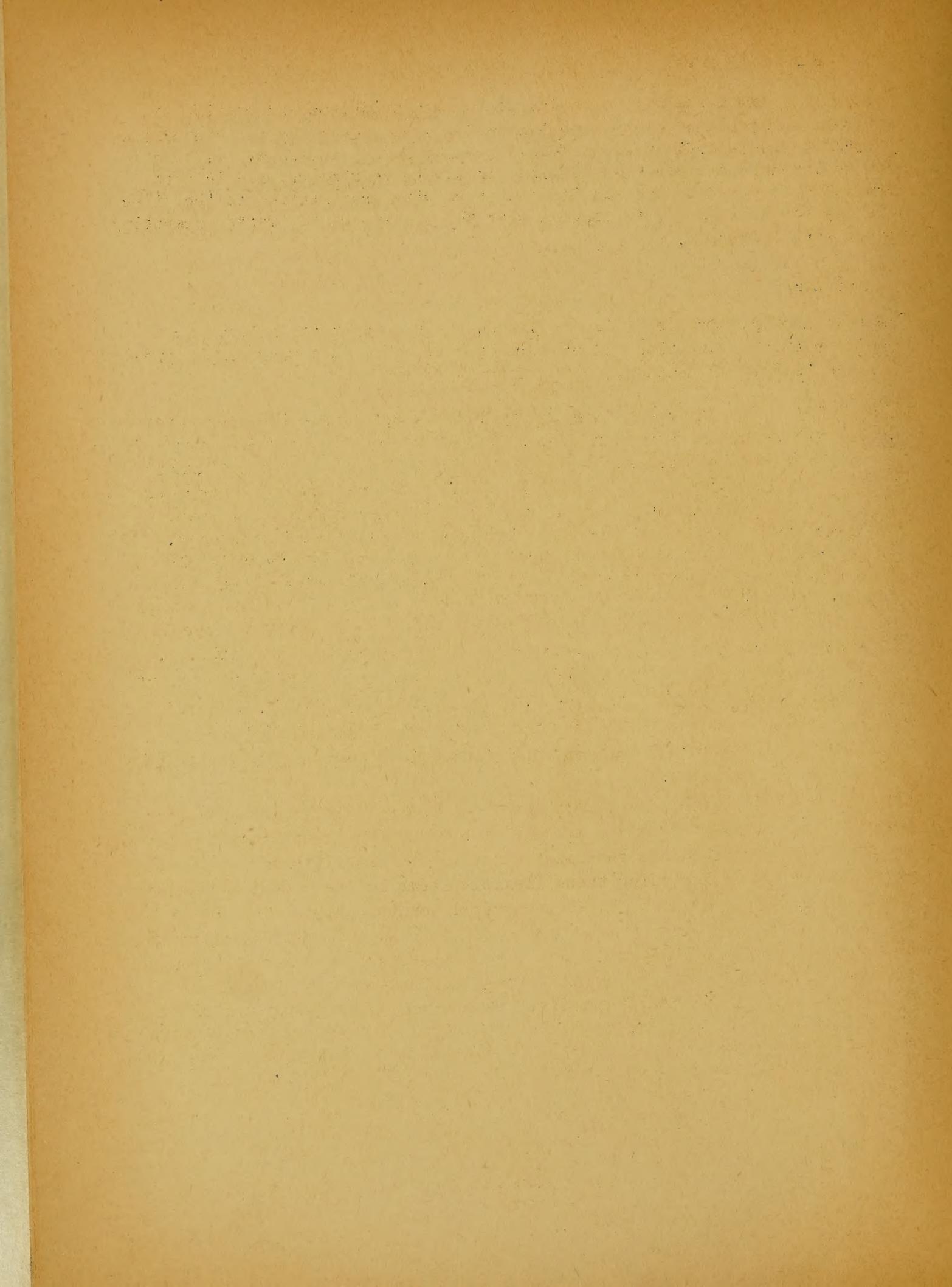
The next, or third step in this plan is the consolidation and posting of the various data, previously compiled on the work sheets, to the "Schedules" by accounting classifications. These "Schedules" are designed: (1) To make them readable and easily understood; (2) to be mimeographed in both form and size suitable for use in connection with presentation to the directors and to REA; and (3) to conform with the make-up of the master operating budget form (CO-47R1).

Step 4

The fourth step, obviously, is the posting of the information from the schedules to the Operating Budget form itself. This is a very simple process and is self-explanatory.

In addition to the above-mentioned steps, however, we have included three "Summaries" which are very pertinent. These are the "Summary of Payroll," the "Summary of Miscellaneous Supplies to be Purchased," and the "Summary of Miscellaneous Expenses to be Paid." These summaries contain information which does not readily stand out in the schedules but which is of vital importance to a "meeting of the minds" between a board and its manager. They contain a list of the expenditures which are the most controllable and in which the directors and the members have always evidenced the greatest interest.

We fully realize that some expenses are extremely difficult to estimate. Nevertheless, budgets are flexible and can be changed to meet any emergency or changing condition that may arise. They do, however, point up these changing conditions much more effectively than would be apparent without a budget and they enable the managers and directors to better understand the reasons for the changes.



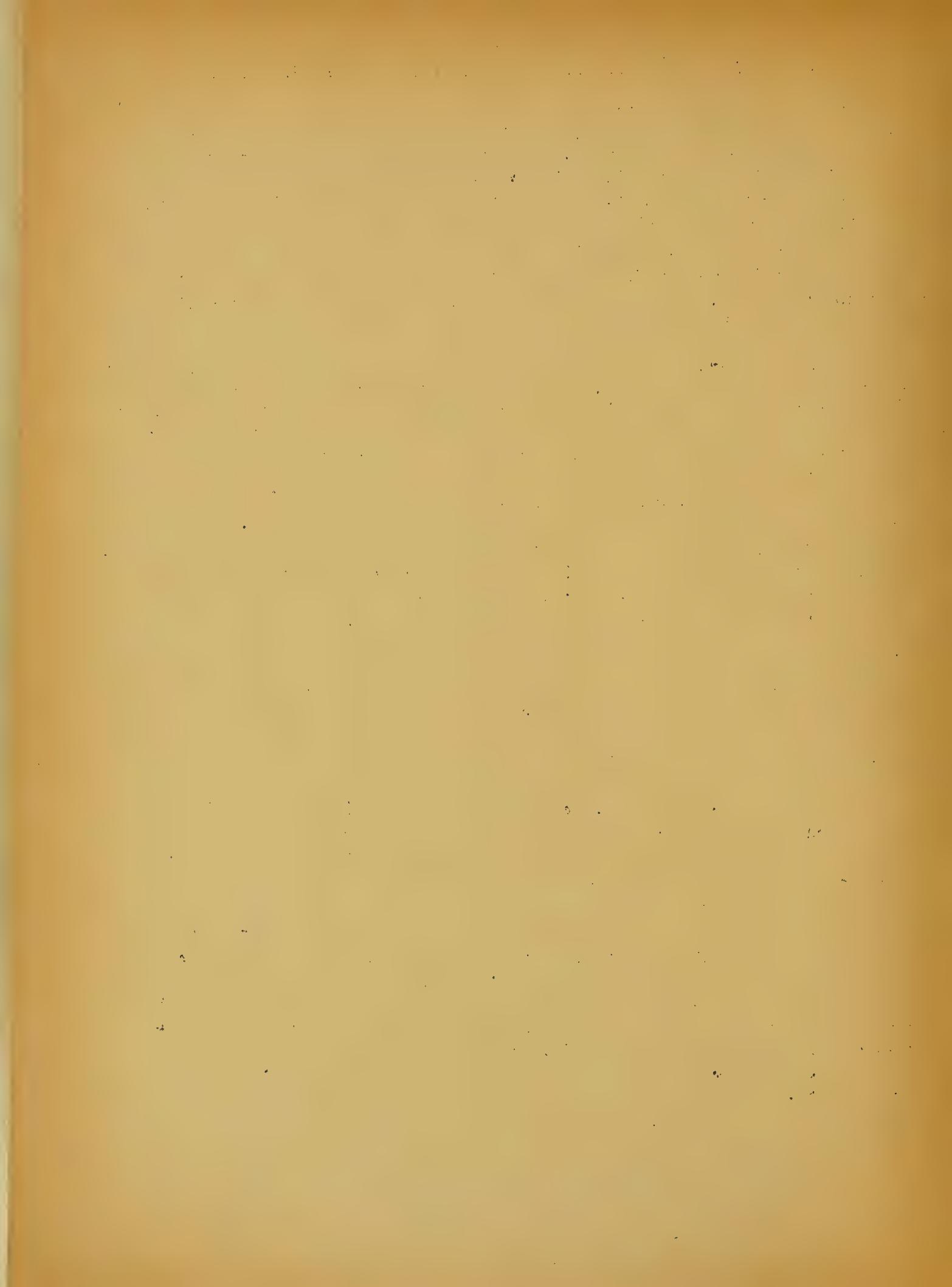
A GUIDE TO BASIC PLANNING OF A WORK PROGRAM FOR BUDGET PURPOSES

Before any attempt is made to come up with dollar estimates concerning expectations for the coming year, a desirable comprehensive work program for the period should be drawn up. This program should take into account changes in outside operations, inside operations, member and public relations, and general management. An objective attitude should be taken, and all activities examined critically to ascertain whether organization and methods can be improved, and whether necessary materials and necessary manpower are being used efficiently. Before using past operations as a guide to the future, examine those operations very critically in the light of the job yet to be done.

There are many reasons why past operations should not be used indiscriminately as the basis for looking ahead. Many cooperatives are now in a period of transition from the construction to an operating stage. Inventories should be stabilized, motor vehicles, tools and work equipment should be adjusted to normal operating requirements, and personnel should be reviewed for possible realignment of duties and curtailment. Normal aging of the lines, and new developments generally, will create gradual changes in the work program. The work cycle from year to year will not necessarily be the same, depending on how special projects, such as meter testing, right-of-way reclearing, etc., are handled. Almost all cooperatives have some opportunity for improving their organizational set-up and work methods. If there is an inclination to use past operations as the basis for the budget, two questions should be asked:

1. Has perfection been reached already so that all that needs to be done is to repeat past performance?
2. If not, is it to be decided that no effort is to be made to improve?

In setting up the work program, routine or basic activities must, of course, be included, but some projects such as right-of-way reclearing, meter testing, and preventive maintenance generally allow some flexibility as to time of execution. Before including these flexible items in the work program for the year, thought should be given to several points. Among these would be the urgency of need for the work to be done to insure adequate service to consumers, the availability of funds for the purpose, the feasibility of savings through combinations of work projects, maximum use of regular employees, and the controlling weather conditions. The decisions for doing work of this nature will be more difficult and more urgently necessary for managers of cooperatives in weak financial condition, but proper timing and coordination with routine and construction work is important to all cooperatives.



Ideas for the work program should be grouped under categories of: (1) What needs to be done to carry out the overall objectives of good dependable service on a sound financial basis; (2) Where does the work need doing; (3) When is the appropriate time to do it; and (4) How can the job be done most advantageously.

Sub-grouping under what is to be done should be similar to the usual accounting classification. For instance, under distribution operations such items would be listed as routine inspection and patrolling of lines, voltage surveys and periodic testing, investigating and adjusting service complaints and maintenance of services. The listing should cover all activity to be carried on by the cooperative during the year.

Where the work is to be done is important for many outside activities. Right-of-way reclearing, for instance, cannot be carried on simultaneously on all sections. Instead, attention will probably be focused on one section at a time according to where the work is most needed. The explanation of "where" should be readily identifiable with system maps. For those activities carried on in the headquarters office or which entail considerable flexibility of location, no specification of locale of work is necessary.

Under "When" will be shown either the point of time or the period during which the work is to be performed. If the activity is routine, simply state "continuous" or "regular." Should the work project be seasonal or intermittent in nature, show, for example, "March and September," or "May through July."

How the job is to be done encompasses not only the basic necessities of manpower, tools and equipment and material, but also methods and procedures for doing the work. These methods and procedures may or may not be reduced to writing for purposes of budget preparation, but good management would certainly require that future planning be based upon efficient work methods, and good management always has written procedures for all to follow as a regular routine or work organization. "When" and "How" (manpower and equipment) should be properly coordinated so that there will be no conflict caused by overlapping - so the workload will keep all employees busy all of the time as nearly as possible.

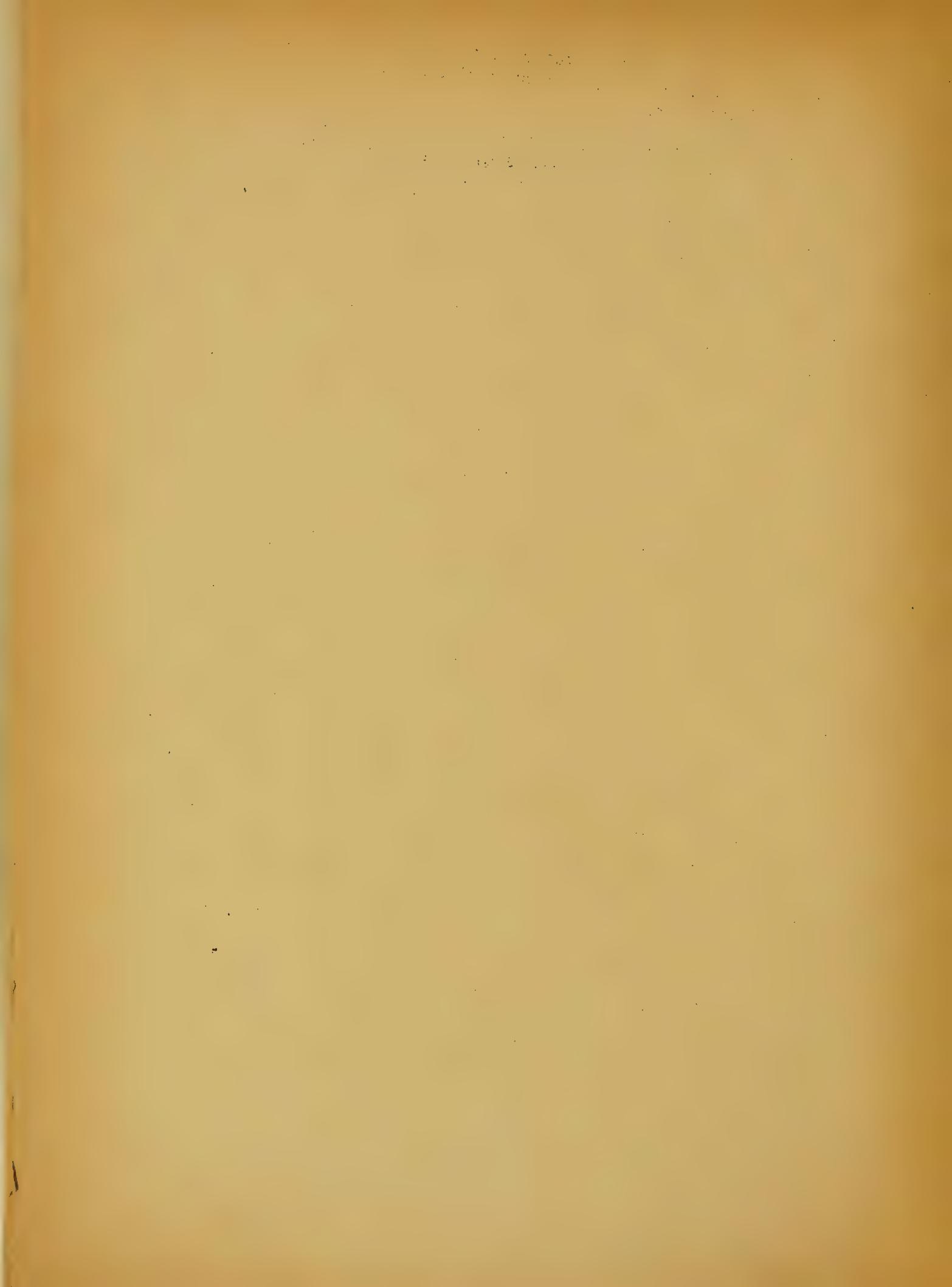
In planning the work program, the requirements in terms of manpower, tools and equipment, and materials will be of direct concern. Whether labor and supervision will be by contract or regular or part-time employees should be indicated. If manpower is to be self-supplied, the number and class of employees and the approximate time required expressed in man days or man hours should be shown. For example, "Labor Contract only," or "1 line foreman, 1 lineman and 2 helpers, regular, 165 man days." The estimated tool and equipment requirements and the length of time needed should be shown. For example, "1 pick-up truck, 1 voltmeter and recorder, and hot line tools, 10 days" or "contractor." Materials requirements should list

as nearly as possible the various items of material needed, and the number of units of each item. For example, "10,400 post cards, 400 addressograph plates," or "Supplied by Contractor."

Appended hereto is suggested Worksheet No. 1 which can be used as a pattern for setting down ideas for a work program in an orderly manner. This sample probably is not large enough to show complete detail, so it is suggested that the form outline may be transferred to a larger sheet of ruled paper. As an alternate suggestion, sub worksheets could be used for the various work categories and the information summarized on a form such as the one attached.

The completed work program will provide the basis for arriving at dollar estimates for individual plant and expense items. However, other equally important information will be provided by the work programs which is of vital concern to Management. It will make available, through analysis, sound indications of the number and class of employees needed, the number and kind of motor vehicles, tools and work equipment needed, desirable inventory balances, and what materials should be purchased and when. The work to be performed during the budget year should follow the program as nearly as is practical, both with respect to type of work and timing. Marked variations in actual performance from the program planned will certainly cause divergencies of actual income statement figures from the corresponding budget estimates. It is important to keep in mind, however, that when emergency situations disrupt planned schedules of the work program, the budget program serves a new and most important purpose. It measures the difference between normal and emergency - it measures the extra resources used up - it measures the regular work postponed - it points up the need for further managerial planning and indicates where. If resources have been seriously drained by an emergency, subsequent plans may have to be revised completely. Under normal conditions the budget plans should be adhered to, but if important changes are to be made, they should be planned and the budget formally revised and re-approved. Basically, the budget is not a shooting gallery target set up to be hit exactly. It is a management tool for the planning and controlling of a business enterprise. Budgeting success is not measured in terms of how closely year-end net margins were predicted, but in terms of how effective the budgeting has been in guiding the efficient use of resources to accomplish objectives.

It is recommended that the "Work Program" be submitted to the Board of Directors for their criticism and approval. If it is properly and completely drawn up it gives the directors a basis for knowing exactly what they can expect from the management during the ensuing year without reference to dollar value or accounting terms. It also gives the manager, if the board approves it, a go-ahead sign to do the work and purchase the equipment included in the program. Nobody can logically criticize a manager for doing what the board has authorized him to do.



COMPREHENSIVE WORK PROGRAM FOR CALENDAR YEAR _____

What is to be Done Where (If Pertinent) When How

Generation:

Transmission:

Distribution - Operations:

Distribution - Maintenance:

Consumers Accts & Collecting:

Power Use:

General Office:

Miscellaneous Expenses:

Equipment Purchases (all types):

Line Additions and Retirements
(Miles and Consumers):

